

**PLEASE FEEL FREE TO SEND TO INTERESTED  
RECIPIENTS ON YOUR EMAIL DISTRIBUTION LISTS**

**CRITICAL REFLECTIONS OF THE DEAN OF THE CALIFORNIA LEGISLATURE**  
(a series of occasional papers for the purpose of awakening every Californian)

**DEAN'S REFLECTIONS #3 -  
OUR STANDARD, OUR GOAL + A BASIC FORMAT**

**TABLE OF CONTENTS**

|   | <u>Page</u> |
|---|-------------|
| A. Overview of Dean's Observations.....   | 2           |
| B. My Proposed Standard: A Smart Budget.....                                      | 2           |
| C. My Proposed Goal: Keep California 1st: A Safe, Decent & Competitive State..... | 3           |
| D. My Proposed Format for Designing Our Budget.....                               | 3           |
| E. Proposed Format Meets My Standard.....   | 4           |
| F. Proposed Format Meets My Goal.....   | 5           |
| G. A Smart Budget to Keep California 1st: A Safe, Decent & Competitive State..... | 7           |
| H. Next Steps Toward Achieving a Balanced Budget.....                             | 9           |

**A. OVERVIEW OF DEAN'S OBSERVATIONS:**

My Dean's #1 (January 10, 2003) - confirmed the enormity of our State of California Budget crisis - between \$26 & \$34 billion - amounting to a crisis. We Californians face a problem of unprecedented dimensions. I hope we recognize it as our enormous challenge.

My Dean's #2 (January 24, 2003) - proposed a set of 7 guidelines which altogether provide us the most promising path toward meeting our challenge, solving our critical problem - in a manner that carries us together through our crisis and holds together the People and the State of California for a finer future.

My Dean's Reflection #3 (Feb 13, 2003) - proposes to set a standard for us to measure ourselves by and meet - + a goal for us to realize for all our future well-being - + a beginning basic format in keeping with that standard and that goal.

To assure the integrity of our process and hope for our progress - we ought set ourselves a standard and set ourselves a goal - neither of which ought be contrived as a recent formulation in any effort to take political advantage of our crisis, rather than to meet our enormous challenge straightforward and effectively.

Neither the standard nor the goal I now propose is just recently contrived.

(As with my Dean's #2, I invite each & every one of my colleagues here in the California Legislature, and each and every Californian throughout our Golden State, to give your attention to what I am proposing, and to either enlist in my effort or, if you find it not to your liking, have the integrity & responsibility & grace to come up with a Standard + a Goal + a Basic Beginning Format of your own. At least that would provide us the means for engaging together in a dialogue toward coming up with a common process that leads us to the best resolution of our budget crisis challenges.)

**B. MY PROPOSED STANDARD: A SMART BUDGET:**

It was way back in 1994 that I began first calling for us to adopt "A SMART BUDGET" - a budget that smartly and wisely conserves rather than destroys our future as a proud state and as a proud people.

That's the standard I now lay before myself and before each and all of my colleagues here in the Capitol, and before each and every key stakeholder, and before each and every Californian. Let us, each and all, right now begin our effort to meet our critical budget challenge by committing ourselves to designing and adopting "A SMART BUDGET" as our standard.

Nothing else can work for very long. Nothing less suffices to enable us to meet our personal and collective responsibility to the People and State of California!

Does any one of you wish to challenge my proposed standard? Is there anybody out there who wants to come out against "A SMART BUDGET?"

C. **MY PROPOSED GOAL: KEEP CALIFORNIA 1ST: A SAFE, DECENT & COMPETITIVE STATE:**

It was way back in 1995 that I began first calling for us to adopt a budget that serves to - KEEP CALIFORNIA 1ST -

*A SAFE, DECENT & COMPETITIVE STATE!*

By "SAFE" - I mean that our budget decisions ought serve to assure the public safety of all Californians.

By "DECENT" - I mean that our budget decisions ought serve to recognize both our being the wealthiest people and state in the entire history of the world, and that each and every Californian is a human being, a member of our human family.

By "COMPETITIVE" - I mean that our budget decisions ought serve to assure California's ongoing future capacity to have an adequately prepared work force that can compete successfully in the global economy in this age of technology in which we now ever more are going to be living.

Does any one of you wish to challenge my proposed goal? Is there anybody out there who wants to come out against KEEPING CALIFORNIA 1ST - A SAFE & DECENT & COMPETITIVE STATE?

D. **MY PROPOSED FORMAT FOR DESIGNING OUR BUDGET:**

In keeping with Guideline #1 of our Dean's #2 "7 principles for reaching a balanced budget" - and as foundation for our working our way carefully and precisely through our crisis and our challenge and our choices on the road toward a balanced budget, we need to identify a starting point, a target. How large is our budget hole we find ourselves facing now?

I choose to begin with the budget shortfall estimate provided us by our own nonpartisan objective highly regarded Legislative Analyst Elizabeth Hill. That gives us a target of some **\$26 billion** we must find in order to gain for ourselves a balanced budget.

Let us begin with an intensive extensive search for budget programs and expenditures that we can afford to cut - and still measure up to our standard - A SMART BUDGET - and meet our goal - TO KEEP CALIFORNIA 1ST - A SAFE & DECENT & COMPETITIVE STATE.

Only after, and insofar as we find therein ourselves coming up short in our effort to arrive at a balanced budget, shall we go looking for revenue increases to make up the remainder of what we need for a balanced budget.

So now let us begin to design a basic format for our balanced budget which is in keeping with our standard - that it be A SMART BUDGET - and in keeping with our goal - TO KEEP CALIFORNIA 1ST - A SAFE & DECENT & COMPETITIVE STATE!

We will attempt to display the fiscal implications of this framework - separately - both as to:

- 1 - Changes from the Governor's proposed budget; and
- 2 - Raw appropriations.

Immediately coming into my mind are 4 basic categories of budget expenditures whose cutting would violate either or (more likely) both our standard and our goal.

- 1 - Expenditures that are required by law, hence beyond our legal capacity to fail to fund.
- 2 - Expenditures for programs that are required to meet a Federal "maintenance of effort" level - falling below which would forfeit the State of California, and more importantly the People of California, far more dollars that could be saved by such cutting.
- 3 - Expenditures for programs that serve to bring in to the State and People of California far more revenue that could ever be saved by their being cut.
- 4 - Expenditures in programs that provide services to the People of California, absent which services our people's unmet needs are readily predictable to grow into much larger future calls upon our public treasuries and our taxpayers money, "Pay Now or Pay More Later"

Any such cuts in any of these four categories of programs wouldn't help us come up with A SMART BUDGET - any such cuts would be simply stupid!

Most of any cuts in such 4 categories of programs would likely reduce our capacity to KEEP CALIFORNIA 1ST - A SAFE & DECENT & COMPETITIVE STATE!

So let us now proceed to smartly and honestly fill in these blanks - identify and cost out any program which properly fits and falls into any one of those four categories.

**E. PROPOSED FORMAT MEETS MY STANDARD:**

- 1 - Expenditures that are required by law, hence beyond our legal capacity to fail to fund.

Example: Paying interest on our State of California bonded indebtedness -\$2.8 billion

- 2 - Expenditures for programs that are required to meet a Federal "maintenance of effort" level - falling below which would forfeit the State of California, and more importantly the People of California, far more dollars that could be saved by such cutting.

- Our TANF (public assistance) budget - \$2.7 billion REQUIRED to be spent by California in the Budget Year OR risk losing ALL these federal funds

- 3 - Expenditures for programs that serve to bring in to the State and People of California far more revenue that could ever be saved by their being cut.
  - Any program where, if cut, we lose an equal or more than equal share of federal funds:

- Medi-Cal The proposed cuts to our Medi-Cal program save the state general fund \$1.3 billion but, if we do them, the state will ALSO lose \$1.3 billion in federal funds (which will be spent outside of California) . In addition, the 400,000 people cut from eligibility will join the 7 million already uninsured, and the provider rate cuts (15% rate cut proposed on the \$22 office visit as an example) will simply force people to go to county clinics or emergency rooms.

- California Technology Investment Partnership program (at Tech Trade & Commerce Agency) Over the last 6 years of the California Technology Investment Partnership program, grants of over \$30 M have been made to 178 new technology startup companies that has leveraged \$172 M of federal grant funds. For every dollar of state investment in CalTIP the state receives \$2.27 in taxes, resulting in \$69 M in revenue.

- Science and Technology Would lose the entire Division of Science, Technology & Innovation at TTCA and its programs, which include six Regional Technology Alliances, CA Technology Investment Partnership grants to new technology startups, Space Technology Alliance, and the Manufacturing Technology Program.

- Small Business The Small Business Development Center program at TTCA leverages \$9.5 in federal funds.

4 - Expenditures in programs that provide services to the People of California, absent which services our people's unmet needs are readily predictable to grow into much larger future calls upon our public treasuries and our taxpayers money.

- The consequences of the proposed Medi-Cal cuts are particularly relevant in this category as well. In addition to the lost revenue cited above, the loss of providers will force sick people to go to the MORE expensive places for their day-to-day medical problems: For every dollar saved to physician office visits, Medi-Cal will pay \$3 if the person goes to a hospital outpatient clinic and \$5 if the person goes to an emergency room!

- The proposed reduction of state dollars for 400,000 existing children in child care programs on paper 'saves' the state \$1 billion, BUT for each dollar we invest in child care, the government saves \$3 due to higher wages, fewer incarcerations of criminals and less demand for school remedial services. Overall economic benefits grow to \$7 return on each dollar invested when non-government savings are added.

## **F. PROPOSED FORMAT MEETS MY GOAL:**

TO KEEP CALIFORNIA SAFE -

- To not release from our state prisons any inmate who is serving time for any violent act - \$4 billion;
- To protect local law enforcement from cuts below;
- To protect all violence prevention programs;
- To protect all state prison inmate programs for rehabilitation - educational, vocational, therapeutic (including drug treatment).

TO KEEP CALIFORNIA DECENT -

- To not reduce basic subsistence grants for our aging and/or disabled Californians, who already now live 75% below the federally established poverty level - \$1 billion;

**TO KEEP CALIFORNIA COMPETITIVE:**

- To assure quality child care services - - \$1 billion
- To not reduce K-12 funding below our Constitutional guarantee enacted by the People of California in 1988 - via Proposition 98 - \$2 billion;
- To not close access to any Californian to our California Community Colleges - \$200-300 million;

I hope all will note this in proposing this standard and this goal. This basic format - I have only begun to fill in the blanks by identifying (both for illustrative and substantive reasons) programs that fit into each category. I invite others to nominate additional programs for our consideration in each of these categories.

**G. A SMART BUDGET TO KEEP CALIFORNIA 1ST:  
A SAFE, DECENT AND COMPETITIVE STATE**

**Draft Example based on preliminary analysis of Governor's Proposed Budget**

LAO Projected 2003-04 GF revenues \$ 69.2 bi

Prior year fund balance 4.5 bi

**Available GF revenue for 2003-04 Budget \$64.7 bi**

The Budget I/We (Minimally) Want:

| <u>Category</u>                         | <u>Proposed</u> | <u>What we need</u> | <u>Total (in billions)</u> |
|---|-----------------|---------------------|----------------------------|
| Prop 98 Obligation <sup>i</sup>         | 31.6            | + 2.5               | 34.1                       |
| K-12 <sup>ii</sup>                      |                 | +1.5                | 1.5                        |
| Higher Ed <sup>iii</sup>                | 9.7             | +0.5                | 10.2                       |
| Health <sup>iv</sup>                    | 7.1             | +3.7                | 10.8                       |
| Social Services <sup>v</sup>            | 7.9             | +3.7                | 11.6                       |
| Youth & Adult Corrections <sup>vi</sup> | 5.6             | -1.0                | 4.6                        |
| <u>All other<sup>vii</sup></u>          | <u>6.0</u>      | <u>+0.5</u>         | <u>6.5</u>                 |
| <b>Totals</b>                           | <b>67.9</b>     | <b>11.4</b>         | <b>\$79.3 billion</b>      |

**Available revenue 64.7**

**Fund Shifts 2.2**

**Loans/Borrowing 3.3**

**Total resources available 70.2**

**Outstanding deficit to be financed through further cuts/revenues \$9.1 billion**

---

<sup>i</sup> To reflect the accurate level of actual spending under Prop 98 and to adjust for retaining the current funding for 400,000 children in subsidized child care slots, a basic adjustment to the current year expenditure level of Prop 98 is needed in the approximate amount of \$2.5 billion.

<sup>ii</sup> The Governor's budget proposes an across-the-board cut ABOVE Prop 98 of \$1.5 billion. Rather than this approach, I recommend the fiscal subcommittees carefully examine the K-12 budget and propose specific reductions if possible while allowing districts flexibility as appropriate.

<sup>iii</sup> The Governor's budget reduces UC, CSU current budgets by 4+% and anticipates 25% fee increases. I would propose restoring that cut but instead exploring savings by redirecting lower division students to community colleges as a savings mechanism -- in other words, other methods of curtailing when possible new spending in the most costly higher education programs until our revenues recover sufficiently to justify restoring preferred admissions policies. While we do this, we would need to assure enrollment at the community colleges.

<sup>iv</sup> The Governor's budget cuts Medi-Cal provider rates, knocks 400,000 people off the program (but onto county indigent health systems), and eliminates 'optional' benefits (all of which are less expensive than doctor/hospital alternatives). Though the state would save a modest amount of GF, the state would LOSE matching federal funds, doubling the impact on our economy and safety net system in counties. My budget proposal reverses that and assumes no realignment. Actual program savings, although less in amount would be far preferable in the long run to these cuts.

<sup>v</sup> The Governor's budget realigns social services programs as well as reduces cash grants for the aged, blind and disabled and TANF families. Realignment appears not likely to happen, therefore this budget version restores that GF obligation. In reference to cash grants, I propose no increases in state GF but no cuts beyond the current levels and the only increase the state would grant is a pass-through of federal cost of living adjustment to the aged, blind and disabled. To make all of these adjustments would require putting \$3.7 billion back into the state budget for these purposes.

<sup>vi</sup> With fewer than half of the inmates in California prisons convicted of violent crimes, and with fewer than half the number of youth compared to a few years ago remaining in our California Youth Authority, we ought to be able to expect a 20% reduction on the current \$5 bi + budgets of these agencies. There are SAFE local alternatives, many likely to better promote public safety than our current practice of only warehousing inmates in state prisons.

<sup>vii</sup> Since this "leftover" category includes essentials like interest payments on Debt (\$2.8 billion) along with a vast array of state programs, I have simply allowed for some restoration of cuts with the hope that subcommittees would also find specific program reductions as well.



---

## **H. NEXT STEPS TO ACHIEVING A BALANCED BUDGET:**

1. Adopt conceptual model for building a SMART Budget by Legislative leadership.
2. Establish the guidelines (per those enumerated in Dean's Observations #2) to Budget Subcommittees.
3. Establish timelines for departmental reviews with targets for desired reductions based on analysis on lower priority spending programs.
4. Establish timelines for appropriate policy committees to review off-budget spending (tax breaks, etc.) to identify additional resources.
5. Recalculate the deficit based on program deferrals/ cuts/eliminations/efficiencies through savings/ tax break adjustments produced in reviews.
6. Enumerate short-term and longer term revenue adjustments to finance California's SMART budget.
7. Identify structural changes that would lead to stabilize the state budget balancing process.